CO-OPERATIVES UK

Little book of money

Move your money to co-operatives, credit unions and mutuals.

A short guide to why you should move your money to a better bank... and how to do it.

MOVE YOUR MONEY
bank on something better

Early in 2012 a group of grassroots campaigners launched Move Your Money in the UK – an inspiring new campaign to encourage people to take matters into their own hands by moving their current and saving accounts to ethical banks.

First amongst these banks are co-operatives, mutuals and credit unions which, right across the UK, reinvest every pound for good not bad. At an individual level, you can't do everything to put an unfair economy right – but you can do something.

Move Your Money is the new fair trade. It is THE campaign for our times. This little book, is a short guide to why, where and how you can move your money to a better bank.

Ed Mayo
Secretary General
Co-operatives UK

It sounds too good to be true. A bank owned by ordinary people who share the profits.

A bank that allows those everyday people to decide how it is run. A bank that invests ethically, rather than speculating recklessly on financial instruments so complex that even the bank's senior executives don't understand how they work.

In the wake of the credit crunch and the financial crisis people everywhere have yearned for more responsible banking like this. People whose jobs have been put at risk, and find it hard to cover their ordinary expenses, look on with horror as investment bank directors collect multi-million pound bonuses.

Occasionally, a few people actually make a fuss. The UK Uncut and Occupy movements have successfully drawn attention to many problems associated with a conventional, plc-based banking sector – but it's not only activists who feel frustrated. The disillusionment is shared by people everywhere.

So it is easy to forget that ethical, membership-led finance already exists – in the form of building societies, banks and credit unions run as co-operatives and free from the whims of the stock market.

Credit unions, building societies and The Co-operative Bank have seen significant customer growth over recent years. Despite the wider economic conditions, the mutual sector's revenue has grown by over 33% since 2008, according to thinktank Mutuo.

Taking inspiration from a successful campaign in the US, a new group is running a Move Your Money campaign in the UK, encouraging individuals to switch current and savings accounts to more responsible providers of banking services.

Ten years ago, the idea of moving money from one bank to another might have seemed too complicated. But internet banking makes it much easier than before, and younger people in particular have become used to the idea of switching providers of all kinds of services. As many as 10 million account holders in the US have taken action by moving their money out of big banks and into co-operative banks and credit unions.

The aim of this booklet is to encourage you to do the same.

"Four years ago I was walking past my local church and noticed an open day to join the local credit union, South Manchester Credit Union.

"I had wanted to join a credit union for years because I fully supported the fair and ethical values they offer. As an existing Co-operative Bank user, I was keen to put my money into another ethical and fair institution.

"I found the process of setting up a credit union account straightforward, and I currently save £100 per month. I transfer money by direct debit and receive regular updates and statements. Credit unions have an interest in human need, and by moving my money to a credit union I can help others have access to funds which may have not have otherwise been available to them."

- Brenda

Why switch?

There are many good reasons to move your current account or savings account from one of the big banks to a credit union or a bank or building society that is owned and managed co-operatively.

- It helps to nurture a more diverse, competitive, responsible and community-oriented banking system by promoting local financial institutions that are generally more willing to reach out to customers overlooked by larger banks.
- Not having external shareholders to support, co-operatively run building societies, banks and credit unions can reinvest their profits, and usually offer better rates and charge lower fees.
- In big high street banks, pressure to generate dividends for external shareholders can lead to a conflict of interest between those shareholders and customers: mis-selling of financial products has led to the loss or transfer of an astounding £32bn from ordinary customers to executives and shareholders in the last five years alone.
- Members of co-operative and mutually owned institutions tend to have shared values, or come from a particular area, so investments directly increase economic development in a particular community, and create more jobs.

But the most important reason to move your money is to make your voice heard, and to stop being part of a banking system that has run amok.

The big banks gambled with our money, then demanded a stunningly large bailout.

Their sheer size threatens the entire global economic system, but since we bailed them out they've only got bigger.

If government won't step in, then we must move our money ourselves and end 'too big to fail' banking once and for all.

"I'd been with a high street bank for about 15 years when I finally decided I couldn't stay any longer!

"But it wasn't the credit crunch that did it. I was put off by the impersonal service, the bank's huge scale, and a creeping awareness that it was investing in things I didn't like.

YOUR ACCOUNT

"At the time, I'd not even heard of credit unions, and I worried that The Co-operative Bank wouldn't work for me either, because there didn't seem to be any branches near me in north London. But I took the risk, opening a personal account with Smile and a business account with the Co-op.

"The internet service is entirely successful and I can't now imagine why banks still have high street branches. (What do people do in there?) At the same time, I opened an account with my local credit union, because I was amazed to find out how much help their loans can be to people within the local area who otherwise fall prey to loan sharks. I pay in a small amount every month and, when I can afford it, a larger sum too."

- Alex

A very short history of banking.

Lending and borrowing are as old as history, but banking as we know it today started in the Middle Ages.

Some of the merchants most closely involved were goldsmiths, whose secure premises were used to keep other people's gold safe. They issued receipts that were subsequently traded between people as paper money. Realising that customers only rarely brought in the paper notes to reclaim their original gold deposit, the banks took a risk by issuing IOUs for more gold than they actually had in reserve. In effect, they were creating new money out of thin air.

As long as people had confidence, the system worked – banks made a profit, and customers benefitted from easy credit. But if everybody rushed to withdraw their gold at once, the bank was ruined. In the 1930s, about 9,000 banks in the United States failed for this reason, after speculating on risky stock-market transactions. This wiped out about a third of the American money supply.

To stop that happening again, many countries introduced legislation separating 'investment banks' that speculate on complex financial products from 'retail banks' that deal directly with the public. But in the 1980s, legislators reversed that, allowing 'universal banks' and other large financial organisations to deal with the public and speculate on money markets too.

As a result, banks such as Northern Rock– which had previously been run prudently as a mutual – began to speculate recklessly as a plc. When it became clear what had been happening, savers rushed to withdraw their deposits and Northern Rock had to be bailed out by taxpayers.

There is nothing wrong with banks making a profit, like any other business. But if a bank is owned by external shareholders, as a plc, it may struggle to balance the interests of those shareholders and its customers. In a mutual bank or credit union, the shareholders are the customers. They're unlikely to invest their money unwisely – or to encourage mis-selling of financial products that customers don't need or can't afford.

What is mutual finance?

An alternative to conventional banking started to appear in the 1700s. Rather than rely on bankers who charged impossibly high rates for borrowing, people got together to combine their savings, and lend to each other in order to build homes or deal with times of difficulty.

Building societies were the first mutual finance providers. Not long afterwards came the first credit unions, established in Germany to help farm labourers avoid the clutches of loan sharks when times were hard. And in 1872, the Co-operative Wholesale Society formed a retail 'deposit and loan department' that would eventually become The Co-operative Bank.

In the 1980s, laws were changed to allow building societies to offer a wider range of services, similar to the banks. Soon after, some building societies came under pressure to de-mutualise – to turn themselves into companies listed on the stock exchange, with shareholders who were not necessarily customers. As a result, ten societies de-mutualised, taking with them a substantial proportion of building society assets. Sadly, today not one of these former building societies remains independent, having all merged with, or been taken over by, other financial services groups.

But since then, mutuals have flourished.

In 1999, the Co-operative Banking Group launched Smile, an internet-only service for personal banking, and in August 2009 the group merged with Britannia Building Society. Meanwhile, the credit union movement that had started in Germany spread around the world, providing a genuine people's bank for over 188 million customers in 100 countries.

Credit unions operating in Britain today are extremely varied in size, membership and the range of services they offer. Most have a strong regional identity and tend to be closely involved in their local communities, others are for people working for a specific employer, in a particular profession or for those who belong to an association such as a trade union or religious group.

And these aren't the only providers of mutual finance. Others include insurance companies with assets of around £80 billion, and development funds that lend around £200 million a year to individuals, enterprises and charities within particular communities.

"By August 2008, after the economy started to take a downturn, my business was suffering from a much reduced turnover and what little savings I had were being eaten up by the business, in the hope I would be repaid in the future.

"Sadly this didn't happen. I stuck at it for as long as I could, the banks unable to help due to their own problems. I took the drastic step of personal insolvency, made five people redundant, lost my home and my wife and children as a result. I was able to find a job within a month, but with no bank account or savings I found it very tough going.

"Unable to open a bank account of any sort (even though the Insolvency Service gave me a discharge after one year for handling the whole process well) I was forced to have money paid into friends' accounts... very demeaning. I have been in well paid employment since September 2008.

"This was the position until 2011 when I approached my local Co-operative Bank. They opened an account for me, I have my savings in there, my current account and also life assurance and other services. I do not intend to take out any loans with them but instead I am happy for my savings to be used for the help of others. In this respect the Co-operative serves my needs in many levels.

"The process of opening the account has been easy, well managed and I have been contacted through all stages. The bank can't seem to do enough to help and it's a breath of fresh air to be treated so respectfully after being treated with contempt from all the mainstream and high street banks."

- Paul

Some co-operative and mutual providers

Building Societies

Credit Unions

The Co-operative Bank

There are many different financial organisations, run along co-operative lines, that provide current and savings accounts. This booklet does not attempt to describe them all.

Broadly speaking, they fall into three main types:

Building Societies
Credit Unions
The Co-operative Bank

Building societies

There are about 50 building societies in the UK. Some are large organisations others are smaller and operate regionally or locally.

The range of services that they offer varies but it always includes savings and mortgages.

The biggest, Nationwide, has around 800 branches and is listed as one of the world's 50 safest banks by Global Finance magazine. The main purpose of building societies is to encourage savings, and to give people mortgages to buy residential property in the UK.

What's to like?

Building societies are owned by their customers, which means customers can influence the way they're run. Each member has one vote, regardless of how much money they have invested or borrowed.

With no external shareholders extracting profits, building societies can reinvest in their own business, which often means cheaper mortgages and more attractive rates for savers. Building societies have tended to offer consistently attractive rates of interest for savers, according to Which? Some high street banks, by contrast, offer high rates initially and then drop them.

Building societies must raise at least 50% of their funding from savers, which is low risk and tends to be for the long term. Typically, they raise 75% or more in this way. High street banks on the other hand turn to money markets to borrow and lend for short periods of time. Excessive reliance on the money markets, and complex financial instruments, led to Northern Rock plc going bust.

Building societies are prohibited by law from engaging in commodities or foreign exchange trading. So if you give your money to Nationwide or Coventry Building Society for example, they won't use it to push up the price of food to the point where people in developing countries go short

Credit unions

Credit unions let people in a particular community save and borrow money with each other, whether that community is based on geography, workplace or faith.

There are over 580 credit unions in the UK, but some parts of the country are better served than others. (In Glasgow, one in five people belong to a credit union.)

Larger credit unions provide current accounts or debit cards that give access to ATM networks. A few offer cash ISAs and even mortgages.

What's to like?

Credit unions have a very strong community basis, like the local banks that have given strength to the German economy. They're owned by members, each with one vote, so people have equal say over the way they're run. With no external shareholders extracting profits, credit unions can provide cheaper loans and more attractive rates for savers.

Managers at credit unions are usually paid a standard salary, without the lavish bonuses and rewards of their high street bank counterparts. The board comprises elected members, sitting voluntarily and for no salary. Most of a credit union's money is lent out to other members, some of whom might otherwise be prey to loan sharks. The remainder is invested in short-term savings, often with ethical banks. This tends to make credit unions very stable, compared with the banks that routinely speculate with complex financial instruments. Savings in credit unions are protected, so, just like banks and building societies, the first £85,000 of your savings are completely safe.

Most credit unions provide loans of up to £15,000; some provide higher value loans. The interest charged on loans is capped by law at 26.8% but a rate of 12% is common. By comparison, the leading home credit lender, Provident Financial, advertises a typical rate of 272% and the leading online pay day lender, Wonga, advertises its rate at over 4,000%.

The Co-operative Banking Group

The Co-operative Bank, Smile and Britannia offer much the same range of banking services as any high street bank. They're subsidiaries of the UK's largest co-operative business, The Co-operative Group, which is owned by over six million consumers – many of them bank account holders.

What's to like?

Altogether, there are 341 branches of The Co-operative Bank and Britannia, making their services easy to use (Smile is internet-only). Even if there is no branch locally, account holders can use ATMs in all the major networks. In other words co-operative banking is already on your high street.

For 20 years, the Co-operative Banking Group has refused to finance business activities that members deem to be unethical. The policy covers human rights, ecology and international development.

In a 2009 survey by Ethical Consumer magazine, the Co-operative was rated more highly than any other bank. Subsequently the Financial Times has named it the most sustainable bank in the world. Smile, the internet bank for personal accounts, has consistently scored highly in Which? surveys of customer satisfaction.

The Co-operative Bank helps small businesses by providing free banking to members of the Federation of Small Business and Co-operatives UK.

"A friend of mine recommended the credit union. I was having trouble with my high street bank. I had a loan and I was paying back as much as I could but one day they said I was in arrears and just took what I had set aside for my rent. I was also a victim of a fraud.

"So I had trouble keeping my house that month. I'm a teacher and a foster carer. I had some credit cards but defaulted and I wouldn't be able to borrow anywhere else. I walked past the credit union and went in, and they helped me plan my spending, and later they helped me move home, with a loan that I paid back in a month. It cost me just £6 interest. They were very friendly. I thought, I'm dealing with human beings at last.

"They have more than 1,000 members but I know the manager and deputy manager well. It's much easier to manage my money. There are setbacks, because I can't withdraw money at the weekend. But I'm an adult: I can plan ahead for the weekend and save a lot of money."

- Laura

Other options

Co-operative institutions are not the only providers who deserve consideration.

Additionally, many people are drawn to banks such as Triodos, which places ethical decisions at the heart of its investments and lending. Instead of merely avoiding investments in unethical business, Triodos actively hunts out good and positive things to invest in, and makes all its loans public.

Many Muslims and non-Muslims alike have been attracted to Islamic banking. Based on Sharia law, this avoids charging interest: instead, banks share the profit and risk with borrowers. And the ethical restrictions of Sharia law prohibit investments in alcohol, pornography, gambling and (usually) tobacco and armament too. The first entirely Sharia-compliant bank in the UK was Islamic Bank of Britain, though others (including some high street banks) also provide Islamic banking services.

What kinds of money should you move?

There are many different kinds of financial products. Not just current and savings accounts but also mortgages, pensions, ISAs, and much more. Between them, the institutions mentioned in this booklet offer a very broad spectrum of products. But this booklet is not intended to offer financial advice. If you are thinking about moving your investments, it's important to seek qualified independent advice first.

You may also want to compare the different mutual providers: Ethical Consumer magazine recently scrutinised the financial sector as a whole and found that a small number of mutuals have occasionally invested in unethical companies and taken advantage of tax havens. If this bothers you, you can always use your influence as a member to get things changed.

The Move Your Money campaign is focusing on moving current and savings accounts. If you have cash lying unused in accounts you don't use any more, or savings you've put away for a rainy day, those can be moved easily and smoothly.

What's stopping you?
Go to http://moveyourmoney.org.uk

"Our old bank used to be a building society, but when it changed to a bank they just wanted our money, and they weren't very helpful.

"We had a mortgage, my husband and I, but they didn't explain our options. And we had a credit card with them, for holidays and so on, but we didn't use it often and they wrote to say that if we didn't use it soon we would lose it. And soon after they wrote to offer another one! It was maddening.

CREDIT
1234 5678 9235 2416
VALID FROM 01/12 VALID TO 01/14

"So we moved our mortgage to Nationwide and they were very helpful at explaining how we could pay it off. We also opened a current account there and a cash ISA. Banks are only interested if you have a lot of money and, as pensioners we don't have a lot. But Nationwide was different. I know they want your money, I'm not saying they don't, but they have more time for you, to explain the ins and outs.

"A lot of folk in our position have worked and saved for years – and the banks are taking too much from us. But it's them that got us into this trouble. We went to Nationwide because it was still a building society. That makes a difference. You're not just an account number. You're a member, and you have a vote, and if you don't like something you can go along to the AGM and object.

"You can't influence other people over their finances, but you can say what your own experience is. And if people ask, I always say that we have been very happy with Nationwide."

- Sandra

How to move your money

First, identify the institution you want to join and ask about opening an account. Make sure you become a member and co-owner at the same time, as this may not happen automatically.

When you have received your cheques, credit cards, and other forms of confirmation that the account has been set up, you can think about moving across all the regular payments in and out of your old account.

Give your new account details to your employer and to anybody else who makes payments. It may take some time for the first payment to go through, so keep your old account open until that happens.

Update your direct debits and standing orders by listing any businesses authorised to take money directly from your old account. Ask the new bank, building society or credit union to help set up the same arrangements on your new account.

Amend any online billing arrangements – including regular payments that come out of debit or credit cards associated with your old account.

When you are sure that all the arrangements have been set up correctly, you can finally close your old account. Take good care to do so, following the correct procedure, because if you take the money out and don't close it you may continue to be charged for having an empty or inactive account.

Enjoy your new banking arrangements!
http://moveyourmoney.org.uk

Spread the word

Moving your money is not the end. To make the campaign truly effective, tell your friends what you have done and encourage them to think about doing the same.

If you can, talk about this to local businesses. You might tell them that The Co-operative Bank is the preferred provider for the Federation for Small Businesses, and provides free banking to the federation's members. And why not write to your local authority, to ask which bank it uses?

The Co-operative already has about a third of all local authority accounts. In the US, several authorities moved their accounts – worth very large sums of money – as a result of the Move Your Money campaign. With a small push, who knows how many British authorities might do the same?

Visit http://moveyourmoney.org.uk

Order more copies of this little book at www.uk.coop/moveyourmoney

About the author

John-Paul Flintoff is a writer, journalist and broadcaster.

He has worked for The Sunday Times, Financial Times, Daily Telegraph, Guardian and other leading English-language papers and magazines. His latest book is How to Change the World.

2012 International Year of Co-operatives

Published during the United Nations International Year of Co-operatives. From Argentina to Zambia, the 1.4 million co-operatives will be showing they are building a better world.

Co-operatives UK is grateful to a number of its members for their support of its work over the International Year of Co-operatives.

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